

PROPOSED SEWERAGE AND WATER BOARD RATE INCREASE AND REFORMS



S&WB IS IN CRISIS

S&WB's mission is to provide safe drinking water and protect homes from flooding. As it currently stands, it is clear that it does not have what it needs in terms of infrastructure and funding to the serve the city of New Orleans. Post-Katrina, S&WB's network of underground pipes is leaking at least 40% of its water and the East Bank of the city has faced multiple boil water advisories because of catastrophic outages at the power plant. S&WB's bonds have been downgraded to junk and near junk status for failure to meet debt service obligations.

Repairing our city's infrastructure is essential and comes with an opportunity to create thousands of jobs for New Orleanians.

RATE PROPOSAL

In November 2009, the Board of Liquidation, City Debt issued S&WB a Notice of Material Event for failure to meet bond covenants for debt service coverage for water and sewer system bonds. S&WB recommends a rate increase to adequately fund safe drinking water and waste water treatment, as required by Federal Consent Decree. This rate change will help fund a \$3.3 billion infrastructure improvement program that will help leverage federal funds and create more than 26,000 jobs, including permanent water management jobs. The proposed rate increase is 10% each year, effective January 1, 2013 through 2020. In conjunction with the increases, the Landrieu Administration proposes good government reforms and improved customer service. Funding from this rate increase is necessary to complete federally-mandated repairs and to meet bond obligations. The can has been kicked down the road too many times before. The time to act is now.

	S&WB WATER AND SEWER RATE PROPOSAL HAS BEEN REDUCED				
	Preliminary Rate Study	Final Rate Study	Recommended Alternative		
	September 2011	April 2012	December 2012		
Water	15% Effective July 1	12% Effective July 1	10% Effective January 1		
water	2012-2016	2012-2016	2013-2020		
Sewer	14% Effective July 1	13% Effective July 1	10% Effective January 1		
Sewei	2012-2016	2012-2016	2013-2020		

Average Monthly Residential Combined Bill Based on 10% Rate Increase									
Combined	Current	2013	2014	2015	2016	2017	2018	2019	2020
Bill	\$52.50	\$57.74	\$63.53	\$69.90	\$76.90	\$84.59	\$93.06	\$102.41	\$112.67

How New Rates Will Be	Used		
Source of Funds	Total		
10% Rate Increases Generate	\$582.7 million		
Use of Funds	Total		
Capital Project Financing	\$203.7 million		
Additional O&M Expenses	\$242.1 million		
Previous Liabilities	\$54.6 million		
Cash Reserves	\$48.7 million		
Decrease in Current Funding	\$33.6 million		
Total	\$582.7 million		

EFFORTS TO REDUCE IMPACT

Since taking office, the Landrieu Administration has worked to secure federal and state resources to keep consumers' costs as low as possible. Through the following efforts, we reduced the initially proposed estimated rate for both water (15% to 10% annual increase) and sewerage rates (14% to 10% annual increase):

- Secured over \$208 million in new FEMA funding from 159 Project Worksheets committed for S&WB projects, including repairs to thousands of water and sewer lines, power plant, pumps and pump stations.
- Secured FEMA and state Hazard Mitigation funds to repair aging power plant. Anticipate allocating nearly \$150 million of Hazard Mitigation funds for the power plant. Working on the cancellation of outstanding Community Disaster Loans.
- Working with Congressional Delegation to fund SELA utility transfer costs with 30 year payback.
- Working with EPA to extend term of consent decree for the sewerage system.
- Working with EPA on low interest loans for specific projects to reduce the capital cost.

To reduce the impact of rate increases to low income elderly and handicapped customers, S&WB will create a Service Assurance Program that includes these actions:

- Provide additional funding for bill payment assistance through the Water Help program by January 31, 2013
- Expand Water Help program to provide help with plumbing repairs by June 30, 2013
- Pursue legislative change to allow adjustments for water lost through customer leaks by March 31, 2013
- Evaluate waiver of service charges for qualifying low-income customers by June 30, 2015; and
- Evaluate reduction in late payment fee by March 31, 2013.

FAILURE TO ACT COULD FORCE VIOLATION OF CONSENT DECREE

In 1998, S&WB entered into a consent decree with the EPA to conduct and fund a comprehensive sewer rehab program by 12/31/10. Pre-Katrina, S&WB had 100% compliance record. After Katrina, S&WB lost the East Bank Wastewater Treatment Plant and sustained extensive damage at all sewerage stations and at the collection system on the East Bank of the River. Given decreased population post-Katrina, S&WB had no immediate need to address capacity issues in the collection system or at the treatment plant. A modified consent decree extended the schedule to 7/31/15. Parties are working to extend the deadline again so all compliance dates can be met. **Funding from this rate increase is necessary to complete mandated repairs.**

JOB OPPORTUNTIES FOR OUR RESIDENTS

A 10% rate increase will help leverage dollars to fund a ten-year, \$3.3 billion infrastructure improvement program composed of over 600 projects that will create over 26,000 construction jobs. 74 permanent jobs will be created in 2013 for operating and maintaining the water and sewer systems from funds provided by the proposed rate increase and increase to a total of 186 jobs by 2020.

In conjunction with the City's JOB1 program and S&WB, Delgado Community College will develop a Water and Wastewater Operator Certification Training program to increase the pool of certified personnel to meet the needs of the S&WB's capital improvement program. This program will ensure S&WB personnel satisfy state certification requirements and help develop the pipeline of the next generation of well-trained, highly qualified operators. Delgado will apply to become a certification testing site so that New Orleanians have easier access to these needed jobs. Currently, the closest testing site is in Baton Rouge.

RATE INCREASES FUND OPERATIONS AND CUSTOMER SERVICE IMPROVEMENTS

The program of rate increases provides for specific tangible benefits to customers including:

- Electronic Meters will be installed for entire customer base by December 31, 2016
- Additional Customer Service Center will be open by December 31, 2013
- Online Account Management allowing online bill payment will be implemented by January 31, 2015
- Online Work Order Tracking System with appointment scheduling capabilities will be implemented by December 31, 2017
- A systematic approach to process documentation, analysis and improvement will be implemented by June 30, 2013. The recommended 2013 Operating Budget anticipates reducing operating and maintenance expenses from existing operations by 2% in 2013.

New joint S&WB-DPW project management unit of engineers has been created to better facilitate design reviews and coordinate on joint capital improvements overseeing the \$200 million FEMA-funded Recovery Roads Program that is repairing Katrina-related damages on and beneath Citymanaged interior streets in neighborhoods throughout New Orleans. Better coordination will make roadwork more efficient and consistent.

PUBLIC INPUT

In December 2009, S&WB authorized a comprehensive financial plan and rate study. S&WB has now gone through three versions of a proposed rate increase. S&WB executive board and various committees have met in public 34 times since December 2009 discussing the need for a rate increase.

Six public meetings were held in 2012 to discuss the proposed rate increase:

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Jan. 23	YMCA	Feb. 6	Behrman Memorial Center
Jan. 26	City Council Chamber	Feb. 7	Household of Faith Church
Jan. 30	Lindy Boggs Conference Center	Feb. 9	Bethel A.M.E Church

RECOMMENDED GOVERNANCE REFORMS

To move forward on rate increases, S&WB must be reformed. These reforms will increase performance and accountability and help ensure we are receiving this important public utility's highest level of service.

Proposed Structure

- Reduce board from 13 to 9 members; remove 3 City Council members and 1 citizen appointment;
- Reduce term lengths from 9 to 4 years and limit to serving two consecutive terms.
- President (Mayor), or his designee;
- 2 Board of Liquidation members appointed by the Mayor;
- University Presidents (Tulane/UNO/Loyola/SUNO/Dillard/Xavier/Delgado) nominate 3 citizens for each of the remaining 6 seats; Mayor appoints 6 members from those nominations and sends to City Council for approval;
- Majority of citizen members to have expertise in finance/accounting, business administration/ management, engineering, law, science, environmental science, water management, construction and architecture, and other pertinent disciplines.
- Propose tying future rate increases to Consumer Price Index which is used in other jurisdictions, including Jefferson Parish which adjusts the monthly service charge and usage fee by it.

NOTE: Governance changes require action by State Legislature, City Council, and a Charter Election in 2013.

INCREASE TRANSPARENCY & ACCOUNTABILITY

- Hold public "S&WB STAT" meetings where senior leadership, department heads, and project managers will report on performance measures to the S&WB Operations Committee.
- Memorialize good government contracting processes by abiding by Executive Order MJL 10-05 on Professional Services Contracting Reform to ensure open and competitive selection process.
- Memorialize that board must abide by State financial disclosure and ethics code requirements.
- City Council continues oversight of the S&WB within the Council's current committee structure.

INDEPENDENT GROUPS AGREE RATE INCREASES ARE NECESSARY

Bureau of Government Research- "The S&WB's rate proposals come at a critical juncture for the agency. The water and sewer systems have suffered from decades of chronic underfunding and deferred maintenance, damage caused by the Katrina disaster and deteriorating financial conditions. The S&WB must make substantial capital investments in the systems, address rising costs and strengthen their finances. The rate increases would allow the S&WB to make critical investments in its water and sewage treatment plants and related facilities, and in the sewer network. They would also allow for other capital improvements, including new technology for meter reading and customer service... BGR supports the proposed rate increases. Coupled with reforms to governance, the increases would lay the necessary foundation for the S&WB to serve the public more effectively."

Business Council of New Orleans- "The Business Council of New Orleans & the River Region supports the proposed governance reforms of the Sewerage & Water Board and the accompanying rate increase proposals We agree that there are significant infrastructure needs at the Sewerage & Water Board and acknowledge that the proposed rate increases are necessary to generate additional funding to address those issues."

New Orleans Citizen Sewer, Water & Drainage Management Task Force- "The Task Force urges city leaders to support S&WB's improvement plan. This plan is a long-overdue investment towards addressing lingering hurricane damage and decades of deferred maintenance, which are weakening storm water protection and wasting millions in S&WB customer payments as billions of gallons of water leak or otherwise go unaccounted. Further, S&WB's proposed rate increases are the only timely and feasible means to generate the revenue needed to underwrite nearly \$1 billion in bonds that must finance required repairs."

New Orleans Chamber of Commerce- "Today, the New Orleans Chamber of Commerce's Board of Directors voted to support the proposed S&WB Rate Increase and reforms. In voting to support the proposed S&WB Rate Increase and Reforms, the New Orleans Chamber's board of directors affirmed the need for the following changes: The governance structure of the S&WB will be amended as proposed by the Mayor of New Orleans; the Inspector General for the City of New Orleans will monitor the use of the funds, contracts and capital improvements to the City of New Orleans S&WB; and the Mayor of New Orleans, in his role as President of the S&WB's board of directors, will take a 'hands-on' approach to the implementation of this initiative.

The Times-Picayune- "The massive infrastructure needs of the New Orleans Sewerage & Water Board are well-documented. Study after study has laid out in detail the upgrades that needed to be made. Despite that understanding, and despite a federal consent decree mandating repairs to the system's crumbling sewer pipes, the problem has mostly been left to fester. That was never wise and, simply put, can't continue. Decades of deferred maintenance were exacerbated by damage from the levee breaches during Katrina. FEMA is paying for damage it agrees was caused by the disaster but not for the cumulative wear and tear on what is a very old system. That leaves New Orleanians with a \$3.3 billion bill to modernize the system and satisfy the Environmental Protection Agency. The bill is coming due in the form of a 10 percent increase in water and sewer rates each year for the next eight

years. Mayor Mitch Landrieu is urging the City Council to approve the rate hike Thursday, and the council should do so."

The Advocate- "While there seems to be a lot of complexity to the issue of the New Orleans Sewerage and Water Board's obligations, the bottom line is pretty simple: Unless customers' bills increase, there won't be enough money to fix New Orleans' pipes. That fundamental issue should not be sidelined because of some differences in the city's leadership, and among civic activists, about changes in governance of the board and the pace of the rate increases required."

The Gambit- "There's no getting around the need for a rate hike, and there's likewise no excuse for postponing this decision – or politicizing it before the next round of citywide elections. The council should bite this bullet and act this week to approve the new S&WB rate structure."

Sewerage and Water Board of New Orleans Timeline of Financial Plan and Rate Study Development December 2012

•	November 2009	Notice of Material Event for Water System Bonds
•	December 2009	Board authorizes comprehensive financial plan and rate study
•	February 2010	Request for Proposals advertised
•	April 2010	Proposals received and evaluated
•	May 2010	Contract awarded to Raftelis Financial Consultants
•	June 2010	Determine revenue requirements for all three systems
•	July 2010	Notice of Material Event for Sewer System Bonds
•	Autumn 2010	Advised to proceed with drainage system first
•	November 2010	Drainage system draft plan developed
		Request for roll forward of drainage millages approved by Board
•	December 2010	Request for roll forward of drainage millages not approved by City Council
•	January 2011	Advised to proceed with three systems simultaneously
•	May 2011	First draft of financial plan and rate study report released
•	May 2011	First stakeholder meetings on policy issues
•	June 2011	Second stakeholder meetings on report recommendations
•	August 2011	Third stakeholder meetings on revised report recommendations
•	September 2011	Second draft of financial plan and rate study released
•	October 2011	Finance Committee recommends acceptance of report
		Request for roll forward of drainage millages approved by Board
•	December 2011	Board accepts report and authorizes public hearings
		Request for roll forward of drainage millages approved by City Council
•	January 2012	Report revised to reflect millage roll forward, hazard mitigation grant funds,
		LADEQ loan, and denial of GOZone loan deferral
		Public Hearings held at three locations
•	February 2012	Public Meetings held at three locations
		Stakeholder meetings held with industry workgroups
•	April 2012	Financial Plan and Rate Study Report revised to reflect 2011 actual results,
		reduction in liability reserves, acceleration of repayment of DPW and liability judgments
		Citizen Task Force Report released
•	May 2012	Legislatively prescribed documentation released
		Draft resolutions for rate increases released
•	June 2012	Management responses to Citizen Task Force Report prepared
•	July 2012	Draft resolutions submitted to Board for consideration
		Mayor requests sixty day extension to allow for answers to questions about alternatives
_	A.,	for lower rates over a longer period of time
•	August 2012	Executive Committee receives recommendations on governance issues from
_	Contombor 2012	Bureau of Governmental Research, Business Council, and Citizens Task Force
•	September 2012	Responses to Mayor's questions filed with Board of Directors
_	October 2012	Board of Directors forwards responses to Executive Committee for consideration
•	October 2012	Revised draft resolutions submitted to Executive Committee for consideration
•	November 2012	Board of Directors approves resolutions for ten percent annual increases
		effective at the beginning of each year for 2013through 2020 and forwards to City

Council